CHILTON'S

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THE TRANSPORTATION & BUSINESS LOGISTICS MAGAZINE NOVEMBER 1987

FRED TOLAN
1987 NITL Man of the Year

Career Patterns Survey: Measure Your Success

Motor Carrier Diskette Rating Systems

Trucking Tactics And Strategies

VOL. 86, NO. 11 — CHILTON'S DISTRIBUTION — NOVEMBER 1987

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THE EMERGING PUBLIC WAREHOUSE

The impact logistics has on customer service levels is widely touted today as perhaps the best way to differentiate one company's products from a competitor's. How does the shipper's warehousing strategy fit into the customer service equation? Are shippers finding that public warehousers can provide the same service levels as field warehouses? How is the mix of public and private warehousing changing? How are these changes affecting transportation costs? Finally, what do shippers need from public warehousers to increase their use of this option?

"We're shippers of frozen goods, and refrigerated docks would be important to us. We would also like to have public warehousers assume primary responsibility for the movement of our product, including the loading of a vehicle. This would afford us greater control of that process and assure us of greater product integrity in terms of temperature control. In other words, our product would not be staged for excessive amounts of time on an open dock."—**Gregory Surabian, general manager, traffic & transportation, Ore-Ida Foods, Inc., Boise, Ida.**

continued

JIT and other inventory-reducing strategies are:	
reducing inventory in field warehouses	56%
reducing the number of private warehouses while increasing the use of public warehouses	44%
reducing the use of public warehouses through consolidation	33%
replacing inventory with consolidations and direct shipments	56%
JIT and other warehousing strategies have resulted in:	
lower customer service, no impact on sales	33%
lower customer service, lower sales	11%
lower warehousing costs, acceptable increases in transportation costs	11%
lower warehousing costs, unacceptable increases in transportation costs	21%
lower inventory, greater profit, same sales	21%
poorer coordination of inventory with sales, with little cost savings	11%

QUESTION OF THE MONTH

THE ART OF NEGOTIATION

The success of the logistics department, perhaps more so than any other function in a corporation, depends upon skillful negotiation. You and your people have to negotiate daily with customers, suppliers, carriers, and regulatory agencies, not to mention manufacturing, marketing, purchasing, finance and other departments within your own company.

DISTRIBUTION wants to know how shippers perceive themselves as negotiators. To what extent do you get involved in the negotiation process? Are you in on negotiations from the start, or are you merely informed of the outcome and expected to live with the results? How do you stack up against your negotiating counterparts from the carrier side, and from other vendors of logistics services?

Finally, what do you need to be a better negotiator? What skills are most important in the negotiating process? Which ones do your negotiators lack most? Fill in your answers to the questions on the card below; then watch for the first of two articles on negotiating in DISTRIBUTION's February issue.

DIALOGUE November 1987

- Which department has primary responsibility for negotiating with logistics vendors? _____Traffic/Trans.; _____Logistics; _____Purchasing; _____Legal; _____Administration
- What is the extent of your involvement in negotiations?
  _____I am consulted only before the negotiations begin to establish requirements
  _____I am an active participant in all stages of negotiations
  _____I am only told what the results of the negotiations are
- Our negotiations focus on the following elements (rank one to four in order of importance):
  _____rates _____service levels _____liability
  _____information exchange (EDI, reports generated)
- In terms of negotiating skill, I consider myself:
  _____Very good; better than most of the vendors I deal with
  _____About the same level as the vendors I deal with
  _____Inexperienced, an easy mark for a skilled negotiator
- Our negotiating strategy is best summarized as:
  _____Give the carrier a take-it-or-leave-it offer
  _____Let the other party make the first offer, and then counter offer with the expectation that we'll meet half way
  _____Try to reach a win-win result
  _____Wing it and see how good a deal we can get

Here's what shippers need to do to become better negotiators:

_____

_____

_____

_____

_____

_____

_____

NAME (print) TITLE

COMPANY PHONE

ADDRESS

CITY STATE ZIP

FIGURES IN SPEECH

(Quotes from transportation and distribution notables that have caught the ears of DISTRIBUTION editors:)

"In general terms, American industry is moving away from what has been a top-down military structure to what might be described as a network of interactive platoons that will have well-defined tasks, but will also be expected to be opportunistic in performing them. Flexibility and initiative will be prized...Successful management is leadership without specific instruction. You must be able to focus effort without stifling initiative. You give thrust to your enterprise and set high standrads for it, but you don't define exactly how tasks are to be carried out. You energize people, unleashing their talents."—**Drew Lewis, president and CEO, Union Pacific Corp.**

●

"The average fleet size of a private carrier dropped by nearly a third over the past two years. However, I don't read into those figures a lessening of a commitment to private carriage. Even where the fleet cannot be justified on a cost basis, we are not seeing an abandonment of the private fleet. Rather, shippers are keeping the commitment to their private fleets to use as leverage. Private carriage is the natural regulator of the marketplace."—**Thomas L. Moore, executive director, National Private Trucking Assn.**

WAREHOUSING continued from p. 7

"I would like to see public warehousers approach us with an EDI package. They don't have the resources or the time to initiate these kinds of projects. And individually, they might not have the need to offer EDI, but collectively I think they do."—**Don Van Buhler, director of physical distribution, Adolph Coors Co., Golden, Colo.**

"As a public warehouseman, I have found that our customers are looking for a public warehouse that will provide them with excellent customer service, information that will help them improve their sales and service, plus competitive costs compared to field warehouses. Value-added services are becoming more and more important."—**Manny Miyar, president, American National Storage, Franklin Park, Ill.**

"We stopped using public warehousing facilities due to increased fees for everything from storage charges to in/out fees. Having been with a customshouse broker in the past, we simply opened up our own bonded warehouse to defray all customs duties until the product is actually withdrawn from bond."—**Ross A. Layne, import/export manager, Universal Convertors & Importers, Inc., Tulsa, Okla.**

EMERGING PUBLIC WAREHOUSE STRATEGIES

A survey conducted by the Warehouse Education and Research Council

Statement	Avg. Score
Public warehouses will be performing more and more special handling, assembly, packaging, etc.	1.72
Specialized public warehousing will develop to handle specific market segments (grocery, automotive, etc.)	2.06
Computers will be used in planning and managing public warehouse daily operations	1.72
Public warehouses will remain a significant cost advantage relative to private warehousing	2.78
Public warehousing may replace some private operations due to increases in private sector labor rates	3.00
There will be greater use of computers to disseminate order status to clients	1.78
There will be greater use of public warehouses as distribution agents or cross dock distributors to complement products in storage	1.91

key: 1 = strongly agree, 2 = agree, 3 = no opinion, 4 = disagree, 5 = strongly disagree

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DISTRIBUTION CAREERS:

SEARCHING FOR THE PERFECT PATH. . .

. . . or at least something close. Dr. Bernard LaLonde's distribution career study, presented annually at CLM, reveals a continuing need to shape career patterns into career paths.

By Joseph V. Barks, Contributing Editor

After years of concentrating on better managing physical plant and inventory capital, companies now are rediscovering another area where assets often are wasted: "human capital."

The new religion of lean and mean has put a premium on the need to attract, develop, motivate, compensate, and retain top-notch talent. Fewer managerial slots means less margin for error, and a greater need for peak performance from the positions remaining.

Companies now are returning to human resources (HR) as a key strategic area. HR, it is felt, must help companies gain a competitive edge in an era of slow growth and serve as a first line of defense against "brain drain."

For the past 16 years, Dr. Bernard J. (Bud) LaLonde, Mason Professor of Transportation and Logistics at the Ohio State University, has conducted the preeminent study of career patterns in the distribution field.

The original study in 1972 was prompted largely by a need to create a professional profile from the long list of PD-related titles that existed then. The industry since has gained a better handle on what the distribution function is all about; still, little has been done to develop the discipline from a human resources perspective – to put PD organizations and practitioners on more directed courses.

"You go around at a meeting like this and you'll find 300 sessions, and a lot of wonderful stuff," LaLonde said at last month's CLM gathering in Atlanta. "But most of it is oriented to technology like EDI or management concepts like JIT; there are very few *people* sessions that focus on how to develop an organization or an individual career path."

LaLonde's HR-oriented efforts in this year's survey are just a start. More data and seed work is needed if distribution career patterns are to be shaped into bona fide career paths.

Yet the infusion of a human resources perspective into the discipline will not run headfirst into established practices that will be hard to change or replace. True career paths can be shaped to make the most out of the human capital now in, or about to come into, the distribution field. Once those paths are laid out, logistics may come to be known as a field *into* which brains are draining – instead of the other way around.

LaLonde received 85 responses this year, a 21 percent return. Recipients, allowed only one response, were to have the survey filled out by the highest ranking logistics executive; 30 different titles were represented. LaLonde also issued a caveat about year-to-year comparisons, since each year's sample is not identical.

continued

Job Titles (figure 1)

As would be expected of a sampling where a total of 85 respondents had 30 different titles among them, there still is not a great deal of unanimity within the distribution profession as to the proper managerial level to head up the function. Further complicating the issue is the perpetual problem of misleading titles. Certain industries, such as chemicals, invariably use the director's title to designate the head of any operational area; others, such as the food industry, are big on VPs. Yet each title is of equal value to its industry, and cannot be taken as a sign of more or less importance, or more or less pay. All of these factors add to the challenge of creating distinctive career paths for the profession. About the only conclusion that can be drawn from this data (when combined with responses to other questions) is that companies with VPs in charge of distribution do tend to be more operationally sophisticated (more EDI, more integration, more computerization, etc.) than companies that have managers or directors in charge.

Departments (figure 2) & Relationships (figure 3)

While the vast majority of respondents continue to see their own departments as pure distribution entities, in recent years more respondents have categorized their roles, and those of their superiors, as operations or manufacturing functions. This reflects the trend toward integration of logistics into a pre- and post-production orientation. Characterization of logistics as a marketing function, meanwhile, continues to dwindle from the dominant stature evidenced during the early years of the study. Overall, as Bud LaLonde noted in his CLM presentation, a significant enough scatter still exists among the functional options to suggest that a general consensus is needed to determine what kinds of organizations should run the logistics function. You wouldn't find the same kind of scatter when categorizing the role and fit of manufacturing or marketing or accounting organizations, LaLonde noted. The lack of a consensus as to where distribution should fit is a primary reason for the difficulty in constructing clear cut career paths for top distribution talent.

figure 1

JOB TITLES

	RESPONDENT	RESPONDENT'S SUPERIOR	SUPERIOR'S SUPERIOR
Manager	24.7%	1.1%	1.1%
Director	41.6%	14.6%	36.4%
Vice President	31.5%	69.7%	62.5%
Other	2.2%	14.6%	0.0%
Total	100.0%	100.0%	100.0%

figure 2

DEPARTMENTS

	RESPONDENT	RESPONDENT'S SUPERIOR	SUPERIOR'S SUPERIOR
Distribution	63.3%	1.0%	2.1%
Operations	16.4%	31.6%	19.2%
Marketing	5.1%	12.7%	6.4%
Manufacturing	2.5%	10.1%	10.6%
Staff	7.6%	11.4%	36.2%
Other	5.1%	15.2%	25.5%
Total	100.0%	100.0%	100.0%

figure 3

ORGANIZATIONAL RELATIONSHIPS

	MANAGER	DIRECTOR	VP
Staff	22.7%	13.5%	7.1%
Line	9.1%	16.2%	21.4%
Line and Staff	68.2%	70.3%	71.4%
Total	100.0%	100.0%	100.0%

Organization (figure 4)

When the distribution function is clearly centralized within an organization, it is most likely to be headed by a manager, and least likely to be headed by a VP. A structure that has become more prevalent in recent years is the establishment of the logistics function as a separate operating division, which can then serve in a consulting or third-party role to provide warehousing, transportation, order processing, and other services. This structure is most often found in multi-division companies. The ever-popular combination structure is usually constructed so that sophisticated needs such as MIS and EDI are provided on a staff level, and basics such as transportation and warehousing are handled at the divisional level.

Time Allocation (figure 5)

Managers continue to spend the majority of their time tending to operations-oriented functions. Directors and VPs, meanwhile, have greatly broadened their charters to embrace a host of varied disciplines, from budgeting to purchasing to strategic planning. These added responsibilities mean logistics execs must interact more frequently with functions such as data processing, accounting, and marketing. From a human resources perspective, that makes "boundary-spanning" a major part of the distribution professional's job profile.

The second part of this chart attests to the concurrent broadening of the definition of logistics itself. The survey has revealed phenomenal growth in recent years in the recognition of areas such as budgeting, inventory, strategic planning, order entry, or international as integral to logistics. Ten years ago, Bud LaLonde notes, order entry was considered a logistics activity by only 10 percent of the respondents, and international by

continued

figure 4

ORGANIZATIONAL RELATIONSHIPS			
	MANAGER	DIRECTOR	VP
Part of Corporate Div.	18.2%	10.8%	18.5%
Centralized Staff Dept.	36.4%	27.0%	22.2%
Combination of Centralized & Divisional	36.4%	43.2%	40.7%
Separate Logistics Div.	9.1%	16.2%	14.8%
Other	0.0%	2.7%	3.7%
Total	100.0%	100.0%	100.0%

figure 5

TIME ALLOCATION				
	MANAGER	DIRECTOR	VP	INDICATED ACTIVITY
Traffic	23.1%	15.2%	14.3%	97.5%
Warehousing	13.9%	15.2%	11.0%	93.9%
Gen'l Mgmt/Admin.	11.5%	16.8%	16.8%	86.7%
Budgeting	2.9%	16.8%	4.6%	80.5%
Inventory	7.7%	5.3%	7.1%	73.1%
Strategic Planning	5.2%	7.7%	7.3%	71.4%
Order Entry/Processing	6.2%	6.8%	4.5%	65.3%
International	4.6%	5.8%	4.7%	65.2%
Procurement	3.1%	3.1%	5.9%	44.2%
Packaging	3.9%	1.2%	2.6%	39.7%
Sales Forecasting	1.6%	1.5%	2.3%	26.0%
Product Planning	1.5%	2.1%	1.3%	26.8%
Other	5.2%	4.1%	3.6%	

figure 6

DEMOGRAPHICS			
	MANAGER	DIRECTOR	VP
Age	42.4	44.9	46.2
Years with Employer	11.6	10.8	12.8
Years in Field	16.7	17.6	17.1

figure 7

COMPENSATION			
	MANAGER	DIRECTOR	VP
1st Quartile	$45,200	$53,600	$ 73,800
2nd Quartile	$53,300	$70,600	$ 97,700
3rd Quartile	$65,900	$78,500	$117,200
4th Quartile	$87,100	$96,900	$166,400
Average	$62,700	$74,900	$115,900
Average % Increase	7.3%	8.91%	9.31%

figure 8

EXPECTED BUDGET GROWTH—1988		
BUDGET ITEM	% INCREASE	STD. DEV.
Rail	1.6%	1.8
Motor Carrier—LTL	2.8%	2.9
Motor Carrier—TL	1.9%	2.9
Private Fleet	1.8%	2.2
Warehousing—Private	2.2%	2.8
Warehousing—Public	2.5%	2.3
Fuel—Gasoline	2.1%	2.7
Fuel—Diesel	2.8%	2.4
Inventory Carrying Cost	1.7%	2.9
Total Logistics Cost	2.4%	3.2

just 8 percent. you would also have been hard pressed to find anyone with a reference to any sort of planning function in his or her title or job description. Now, titles like "director of logistics planning" are fairly commonplace.

Demographics (figure 6)

In step with the characterization of logistics as an embryonic field, youth and mobility are apparent in the demographic profiles of executives at all levels. The numbers indicate that distribution career paths now offer a very fast track, with the steps from manager to director to vice president spanning only four years on average. And, there is evidence that progress along the fast track is probably further hastened by a mid-career switch of companies.

Compensation (figure 7)

In a year when neither the consumer price index nor the corporate average for compensation increases exceeded 4 percent, distribution execs did quite nicely for themselves. The sizeable average increases at all levels suggest that the logistics function continues to be repositioned into higher levels within corporate structures. It is quite likely, however, that the compensation increases are no longer coming from traditional means (merit raises and promotions), but rather as part of pay-for-performance packages which tie more of the executives' rewards to lump sum incentive payouts.

Budget Growth (figure 8)

Another assumption that can probably be drawn from the preceding compensation chart is that logistics budgets are growing, because individual compensation usually doesn't go up unless there is an equivalent rise in fiscal accountability. The responses to the survey's budget chart also show a general trend to budget increases within the logistics function. However, as evidenced by the large standard deviation factors for each budget item, budget fluctuations will vary widely from company to company. Some companies will actually be decreasing costs for certain items, and raising others much more substantially than reflected by the mean increases.

continued

figure 9

PRIMARY DRIVERS OF CHANGE

	MANAGER	DIRECTOR	VP	TOTAL
Cost Reduction/ Controls	15.0%	13.9%	16.0%	15.0%
Customer Service	15.0%	11.1%	16.0%	14.0%
Structural Changes in Markets & Competition	10.0%	11.1%	8.0%	9.7%
Integrated Logistics Management	5.0%	19.4%	4.0%	9.5%
Inventory Management/JIT	10.0%	2.8%	12.0%	8.3%
EDI/Computers	5.0%	11.2%	8.0%	8.1%
Recognizing Importance of Logistics Mgmt.	0.0%	5.6%	16.5%	7.2%
International	10.0%	2.8%	4.0%	5.6%
Supply Chain Mgmt.	5.0%	8.3%	8.0%	7.1%

figure 10

SECONDARY DRIVERS OF CHANGE

	MANAGER	DIRECTOR	VP	TOTAL
EDI/Computers	23.4%	15.2%	18.2%	18.9%
Customer Service	5.9%	27.3%	13.6%	15.6%
Structural Changes in Markets & Competition	11.8%	12.1%	4.5%	9.5%
Transportation	17.6%	6.1%	0.0%	7.9%
Cost Reduction/ Controls	0.0%	9.1%	13.6%	7.6%
Integrated Logistics Management	5.9%	3.0%	13.6%	7.5%
Recognizing Importance of Logistics Mgmt.	11.7%	6.1%	4.5%	7.4%
Human Resources	5.9%	3.0%	9.1%	6.0%
Inventory Management/JIT	5.9%	6.1%	4.5%	5.5%

figure 11

PRIMARY CONTINUING EDUCATION NEEDS

	MANAGER	DIRECTOR	VP	TOTAL
Computers	28.6%	25.7%	26.9%	27.1%
Finance	23.8%	25.7%	23.1%	24.2%
Int'l Business	9.5%	5.7%	15.4%	10.2%
Strategic Planning	4.8%	11.4%	7.7%	8.0%
Marketing	9.5%	8.6%	0.0%	6.0%

figure 12

SECONDARY CONTINUING EDUCATION NEEDS

	MANAGER	DIRECTOR	VP	TOTAL
Computers	23.8%	32.3%	12.0%	22.7%
Finance	14.3%	6.5%	12.0%	10.9%
Int'l Business	9.5%	9.7%	8.0%	9.1%
Strategic Planning	0.0%	6.5%	12.0%	6.2%
Communication Skills	4.8%	6.5%	4.0%	5.1%

Drivers of Change (figures 9 & 10)

When asked to identify the drivers of change that will affect future attempts to achieve a competitive advantage through logistics, respondents named cost controls, computers, and customer service. The manner in which EDI/computers jumped to the fore as a second choice (figure 10) attests to how integral computers have become to the implementation of all logistics objectives. Also, significant preferences for second choices emerged at the manager and director levels, with managers showing interest in operational forces such as transportation and EDI/computers, and directors clearly emphasizing the customer service factor. The "structural change" factor proved to be of great concern across all levels, reflecting continued wariness about the effects of mergers, acquisitions, diversifications, spinoffs, etc.

Continuing Education (figures 11 & 12)

Critical to the construction of any career path is development of the requisite skills and know-how needed to stay abreast of the changing demands tied to a particular discipline. Distribution executives' responses to questions about their first and second choices for continuing education topics made it clear again that computers and related technology really is the only choice. Finance, the runaway leader for many years, continues to fade as a priority, with new needs such as international business and strategic planning emerging as desired substitutes, particularly by higher-level respondents. One clear conclusion can be drawn from all of these responses: Logistics professionals already know all there is to know about "kicking boxes out the door"; they now need knowledge keys that can open far more formidable doors.

Skill Requirements (figures 13-15)

Responses provided by distribution executives from the various levels of management offer keen insight into the skill and knowledge areas that will shape the job profiles and career paths of future practitioners of the discipline. A

continued

figure 13

SKILL REQUIREMENTS – SENIOR EXECUTIVE		
SKILL/KNOWLEDGE AREA	TODAY	1990
Oral Communications Skills	1.56	1.67
Human Resources/Personnel	1.38	1.29
Transportation	1.25	1.02
Financial Analysis	1.20	1.36
Inventory Management	1.15	0.71
Quantitative Analysis	1.07	0.91
Negotiating Skills	1.07	0.80
Warehousing	1.00	0.56
Computer Systems	0.60	0.85
International Business	0.49	1.20

figure 14

SKILL REQUIREMENTS – 2ND LEVEL MANAGER		
SKILL/KNOWLEDGE AREA	TODAY	1990
Transportation	2.24	1.70
Warehousing	1.69	0.93
Oral Communications Skills	1.19	1.37
Inventory Management	1.17	0.87
Human Resources/Personnel	1.09	1.09
Written Communication Skills	0.89	1.06
Computer Systems	0.96	1.09
Quantitative Analysis	0.85	1.13

figure 15

SKILL REQUIREMENTS – NEW HIRE		
SKILL/KNOWLEDGE AREA	TODAY	1990
Quantitative Analysis	1.76	1.85
Oral Communications Skills	1.75	1.76
PC Applications Analysis	1.60	1.58
Written Communication Skills	1.53	1.49
Transportation	1.51	0.87
Inventory Management	1.17	0.85
Computer Systems	0.84	1.24
Financial Analysis	0.84	1.00

figure 16

SOURCES OF INFORMATION – MEETINGS			
	MANAGER	DIRECTOR	VP
CLM National	28%	30%	26%
CLM Roundtable	13%	11%	6%
Industry Specific	22%	19%	25%
Non-Industry Specific	9%	10%	10%
Company Sponsored	17%	19%	17%
University Sponsored	10%	9%	10%
Other	1%	2%	7%
Total	100%	100%	100

figure 17

SOURCES OF INFORMATION – PUBLICATIONS			
	MANAGER	DIRECTOR	VP
Business Newspapers	20%	20%	21%
Trade Magazines	39%	38%	28%
Journals	10%	11%	13%
Video/Audio Tapes	5%	7%	7%
Subscription Newsletters	13%	10%	12%
Association Newsletters	13%	13%	14%
Other	0%	1%	5%
Total	100%	100%	100

score of 0.75 indicates average importance; above that, greater importance. Senior executives placed the greatest priority on the development of oral communication skills. This is a far cry from the days when distribution managers were expected to sit in a shipping room corner and be neither seen nor heard. Senior executives also put a premium on developing human resources/personnel skills, again emphasizing the new corporate priority to maximize return on human capital.

Beyond these basic abilities, senior execs said the future will create far greater requirements for skills/knowledge in international business, financial analysis, and computer skills. Basic distribution skills will decrease in importance, as will the need to develop negotiating skills. For second-level managers, the senior level executive drew up skill and knowledge requirements that were more directly related to traditional logistics functions. But even for this group, there is a heightened emphasis on communications and human resources skills. Finally, senior-level executives depicted skill requirements for newly hired employees, emphasizing analytical and communications skills, with a high-tech orientation.

Sources of Information (figures 16 & 17)

Feedback about the value of information gleaned from meetings and publications showed that there is an increased emphasis on relating the logistics field to a company's specific industry. Executives now seem to be striving to allocate their available meeting time between gatherings of "horizontal" groups such as CLM, which discuss a specific management discipline (logistics) that cuts across all industry lines, and "vertical" gatherings of, for example, food or chemical associations. Often these industry-specific meetings will have a special logistics orientation. On the publication side, trade magazines specifically focused on logistics issues continue to be preferred at all levels, augmented by a variety of supplementary media outlets. ★

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